



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Facility Finance Authority

*For the Two Fiscal Years Ended
June 30, 2016*

MARCH 2017

LEGISLATIVE AUDIT
DIVISION

16-12

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§5-13-202(2), MCA,

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

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<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

March 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit of the Montana Facility Finance Authority (authority) for the two fiscal years ended June 30, 2016. We performed this audit of the authority as required by §90-7-121, MCA. The report contains one recommendation related to internal controls over financial reporting.

We thank the executive director and his staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

| | | <u>Location</u> | <u>Term Expires</u> |
|----------------------|------------------------|-----------------------|---------------------|
| | | | <u>January 1</u> |
| Board Members | Larry Putnam, Chair | Helena | 2021 |
| | Kent Burgess | Billings | 2021 |
| | James W. (Bill) Kearns | Townsend | 2021 |
| | Paul Komlosi | White Sulphur Springs | 2019 |
| | Kim Rickard | Townsend | 2019 |
| | John Rogers | Helena | 2021 |
| | Matthew B. Thiel | Missoula | 2019 |

Administrative Staff

Adam Gill, Executive Director (as of January 2017)

Michelle Barstad, Executive Director (Retired December 2016)

Linda Wendling, Senior Financial Specialist

Teri Juneau, Department of Commerce Accounting Manager

For additional information concerning the Montana Facility Finance Authority, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2016

MARCH 2017

16-12

REPORT SUMMARY

The Montana Facility Finance Authority loaned approximately \$1.2 million of its own money, and helped to facilitate an additional \$259 million from other financing sources, for eligible facilities in fiscal years 2015 and 2016, combined. This report contains one recommendation to the authority related to internal controls over financial reporting.

Context

The Montana Facility Finance Authority (authority) works with Montana private and public nonprofit health care institutions and pre-release centers to secure financing for the purchase of capital equipment and buildings. Financing can be in the form of revenue bonds and notes, loans from the Permanent Coal Tax Trust Fund, or loans from the authority's monies. The authority also funds, from its own monies, a grant program to help critical access hospitals, small rural hospitals, and other eligible health care facilities in determining the feasibility of potential capital expenditures.

The authority is self-supporting, and received no general fund appropriations in fiscal years 2015 or 2016.

Revenue bonds and notes issued by the authority under its various programs are considered conduit (no-commitment) debt, and therefore are not recorded on the authority's accounting records. The authority financed conduit debt of approximately \$258.7 million under its various programs during the audit period. The outstanding balances of conduit debt as of June 30, 2015, and 2016, were approximately \$1 billion and \$970 million, respectively. While these amounts are not reported on the authority's accounting records, they are disclosed in the notes.

During the audit period, the authority issued one new loan from the Permanent Coal Tax Trust Fund, and repaid the fund for a loan that had been in default for several years. As of June 30, 2015, and 2016, the outstanding balances of loans made against the coal tax trust were approximately \$2.7 million and \$2.2 million, respectively. State law allows the authority to lend up to \$15 million from the fund. Loans from the Permanent Coal Tax Trust Fund are recorded on the state's accounting records as investments of the fund, but do not appear in the authority's financial statements.

Additionally, the authority loaned out approximately \$1.2 million of its own funds during the audit period. These loans are reported as assets of the authority on the authority's financial statements, and are further disclosed in the note disclosures. As of June 30, 2015, and 2016, the loan balances were approximately \$834,000 and \$1.6 million, respectively.

Results

Our audit work included analyzing the financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control activities. These audit efforts were focused

(continued on back)

primarily on activity related to notes receivable, cash and cash equivalents, service fee revenues and their related accounts receivable, and personal services expenses. Throughout the audit, we also tested compliance with selected state laws.

Through this work, we determined the authority's internal controls were not sufficient to ensure accurate and complete financial reporting in accordance with generally accepted accounting principles. This report contains one recommendation to the authority related to this control deficiency.

| Recommendation Concurrence | |
|--|---|
| Concur | 1 |
| Partially Concur | 0 |
| Do Not Concur | 0 |
| Source: Agency audit response included in final report. | |

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana Facility Finance Authority (authority) for the two fiscal years ended June 30, 2016. The objectives of the audit were to:

1. Obtain an understanding of the authority's control systems to the extent necessary to support an audit of the authority's financial statements and, if appropriate, make recommendations for improvement in management and the internal controls of the authority.
2. Determine whether the authority's Statement of Net Position-Enterprise Fund; Statement of Revenues, Expenses, and Changes in Fund Net Position-Enterprise Fund; and Statement of Cash Flows-Enterprise Fund are fairly presented as of June 30, 2016, and 2015, in conformity with generally accepted accounting principles.
3. Determine whether the authority complied with selected state laws and regulations.
4. Determine the implementation status of the prior audit recommendation.

We addressed these objectives by analyzing the financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control activities. Our audit effort focused on activity related to notes receivable, cash and cash equivalents, service fee revenues and their related accounts receivable, and personal services expenses. Throughout the audit, we also tested compliance with selected state laws.

This report contains one recommendation to the authority, related to internal controls over financial reporting.

Background

The authority is allocated to the Department of Commerce for administrative purposes, but is self-supporting and received no general fund appropriations in fiscal years 2015 or 2016. The authority is authorized three full-time equivalent employees.

The authority provides access to various debt financing or refinancing instruments at reduced rates to Montana private and public nonprofit health care institutions and pre-release centers and to for-profit or nonprofit small manufacturing facilities for purchases of capital equipment and buildings. The authority administers six programs for the health care and prerelease sectors and has developed a program for the small manufacturing facilities. Programs currently administered by the authority include:

Direct Loan Program provides short-term loans up to seven years, in amounts of \$300,000 or less, to eligible facilities for construction, renovation, acquisition, equipment purchases, and the refinancing of outstanding debt.

Equipment Revenue Note Program provides financing for acquisition and installation of equipment. The notes are privately placed with investors for the useful life of the equipment.

Master Loan Program provides financing through tax exempt bond issuances with negotiable terms. Proceeds of the loans may be used to finance new construction projects with negotiable terms, refinance outstanding bonds, acquire real property, purchase equipment, or reimburse borrowers for prior capital expenditures. The loans are backed by the state's Permanent Coal Tax Trust administered by the Montana Board of Investments.

Trust Fund Loan Program provides loans to eligible facilities for capital projects. The legislature authorized the authority to lend up to \$15 million of the Permanent Coal Tax Trust funds. Loan terms are up to 20 years.

Stand-Alone Bond Program issues tax-exempt bonds or notes for borrowers for terms up to 40 years.

Montana Capital Assistance Program is a grant program using authority funds to help smaller hospitals deal with changing needs and services by providing funding for capital improvement plans, which are used to establish infrastructure priorities and to examine funding options for renovations and improvements.

Prior Audit Recommendation

The audit report for the two fiscal years ended June 30, 2012, contained a recommendation to the authority related to internal controls over financial reporting. Additionally, the audit report for the two fiscal years ended June 30, 2014, contained one recommendation to the authority related to implementing internal controls to ensure accurate and complete financial reporting in accordance with generally accepted accounting principles.

During the audit period, the authority took steps intended to resolve the control deficiency identified in prior audits. Authority staff increased their internal review of documents, performed inquiries to gain a more thorough understanding of information provided by outside parties, and contracted with a public accounting firm to review the financial statements and note disclosures. These steps, however, were not effective in

preventing or detecting errors in the authority's financial statements, note disclosures, and Management's Discussion and Analysis. Our audit work identified errors in these documents, indicating the recommendation from the prior audit was not implemented and the authority has a continued need to enhance its internal controls over financial reporting. We report on this in the recommendation starting on page 5.

Chapter II - Findings and Recommendations

Internal Controls Over Financial Reporting

The Montana Facility Finance Authority's internal controls were not effective in ensuring complete and accurate financial reporting in accordance with generally accepted accounting principles.

The Montana Facility Finance Authority (authority) is required to prepare financial statements, related note disclosures, and Management's Discussion and Analysis (MD&A), in accordance with provisions established in generally accepted accounting principles (GAAP). The purpose of note disclosures is to communicate information that, while not presented on the face of the financial statements, is considered to be essential for fair presentation of the financial statements. The purpose of MD&A is to communicate information considered to be an essential part of financial reporting, for placing the financial statements in an appropriate operational, economic, or historical context.

State accounting policy requires management to establish internal control policies and procedures designed to ensure the accuracy and reliability of financial data such as the financial statements, note disclosures, and MD&A. As part of our audit, we reviewed the authority's financial statements, note disclosures, and MD&A for completeness and accuracy, based on the requirements in GAAP and the authority's financial activity for fiscal years 2015 and 2016. Our audit work identified several errors in documents provided by the authority as part of the audit, indicating internal controls were not effective in ensuring complete and accurate financial reporting in accordance with GAAP. Examples include errors in the following areas:

- ♦ **Presentation of a Change in the Basis of Accounting Used for Service Fee Revenues**

Prior to fiscal year 2015, the authority recorded revenues using a cash basis of accounting. The cash basis of accounting is not an acceptable basis under GAAP. We communicated this to the authority during the prior audit, and during fiscal year 2015, the authority began to record revenues under the full-accrual basis of accounting.

In fiscal year 2015, the financial effect of the change from cash-basis accounting to full-accrual accounting should have been reported as a correction of an error, presented in the fiscal year 2015 financial statements as a restatement of net position at July 1, 2014. Instead, the authority reported the financial effect of the change as fiscal year 2015 revenue activity. This resulted in an approximate \$172,000 overstatement of revenues on the draft financial statements. Additionally, the draft note disclosures and MD&A mirrored the incorrect presentation on the financial statements.

- ♦ **Presentation of Non-Routine Loan Activity**

In fiscal year 2015, the authority repaid the Permanent Coal Tax Trust Fund approximately \$462,000 for a loan to an authority client that had been in default status for several years. The authority reported the cash outflow for this payment as a payment to suppliers for goods and services on the draft financial statements. This presentation did not accurately communicate the substance of the cash flow.

- ♦ **Incomplete MD&A**

The authority's MD&A did not provide a reader with the context necessary to understand the causes for changes in the authority's financial position. Such information is required by GAAP.

In addition to the specific items above, we also identified instances where activity was inconsistently reported within the draft financial statements or between the draft statements and note disclosures. We communicated each of the identified errors to the authority as part of the audit, and the authority made the necessary adjustments to correct the errors. As a result, the financial statements, note disclosures, and MD&A included within this report fairly present the authority's activity, in all material respects. However, given the nature and significance of the errors, we consider the authority to have a material weakness in its internal controls over financial reporting.

The authority is administratively attached to the Department of Commerce (department) and has a small number of staff who fulfill programmatic requirements. The authority relies on staff at the Board of Investments and the department for its accounting. Currently, the authority's financial statements are prepared by accounting staff at the department. The department accounting staff responsible for preparing the financial statements do not routinely prepare GAAP-basis financial statements and do not have a need to understand the implications of new accounting standards on a GAAP-basis presentation, in order to complete their ordinary job duties at the department. The note disclosures and MD&A are prepared by authority staff, who do not have a need to review accounting standards in order to complete their job duties.

Over time, the financial reporting requirements for the authority have become more complex, as new standards impacting GAAP are issued, or the authority encounters non-routine activity. This trend towards increasingly-complex reporting is likely to continue, based on current topics being contemplated by accounting standard setters. Given the evolving nature of GAAP, it will continue to be important for the authority's financial statement preparers to be familiar with GAAP requirements and how to apply them to the authority's activities. To improve financial reporting in the future, the authority should provide staff currently involved in the financial reporting process with training on GAAP reporting requirements and presentations. The authority

should also pursue the option of involving other state employees who routinely prepare GAAP-basis financial statements in either preparing or reviewing its financial statements. Such employees include those within the Department of Administration's State Financial Services Division and those within other functions of the Department of Commerce, such as the Board of Investments.

RECOMMENDATION #1

We recommend the Montana Facility Finance Authority:

- A. *Provide existing staff with training related to GAAP-basis financial presentations, and*
 - B. *Pursue the option of including state employees who are knowledgeable in GAAP-basis financial presentations in the financial reporting process.*
-

Independent Auditor's Report and Authority Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position-Enterprise Fund of the Montana Facility Finance Authority (authority), a component unit of the state of Montana, as of June 30, 2016, and 2015, the related Statement of Revenues, Expenses and Changes in Fund Net Position-Enterprise Fund and the Statement of Cash Flows-Enterprise Fund for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Facility Finance Authority as of June 30, 2016, and 2015, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the authority is a component unit of the state of Montana, and its activity is accounted for within the state's enterprise fund. The authority's financial statements are intended to present only the financial position, changes in financial position, and cash flows attributed to the authority's portion of the state of Montana's enterprise fund. They do not purport to, and do not present fairly the financial position of the state of Montana as of June 30, 2016, or June 30, 2015, or the changes in its financial position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Notes 1 and 3, in fiscal year 2015, the authority began reporting revenues on a full accrual basis. In prior financial statements, the authority reported revenues on a cash basis. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-5, the Schedules of Proportionate Share the PERS Net Pension Liability on page A-33, Schedule of Contributions on page A-33, and Schedule of Funding Progress on page A-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide

any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the authority's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 31, 2017

**Montana Facility Finance Authority
Department of Commerce
A Component Unit of the State of Montana**

Management's Discussion and Analysis

Years ended June 30, 2016 and 2015

The following represents Montana Facility Finance Authority (the "Authority") management's discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

Bond issuance activity was up in both fiscal years, as compared to the previous audit.

- The Authority closed bonds/note issues:
Seven bond issues (\$67,259,666) in FY 2016 and ten bond issues (\$191,397,000) in FY 2015
- The Authority revised its Direct Loan Program, in FY 2016 resulting increased activity.
 - The Authority made loans out of reserves designated for such purpose:
Six loans (\$1,041,094) in FY 2016 and two loans (\$179,797) in FY 2015, and two more subsequent to FY 2016
- Revisions to its Direct Loan Program increased interest in the Trust Fund Loan Program in FY 2016, resulting in one loan of \$370,000 and two more subsequent to FY 2016. No loans were made in FY 2015.
- The Authority committed \$15,000 in FY 2015 for a grant out of reserves designated for such purposes. No grant funds were committed in FY 2016. The grant program has been since modified with hopes to increase activity.
- The Authority's total outstanding bonds/notes/loans decreased to \$974,169,302 in FY 2016, after the pay-off of a large bond issue, from \$1,072,667,204 in FY 2015 and \$1,061,859,141 in FY 2014.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Montana Facility Finance Authority's basic financial statements are comprised of two components; the basic financial statements and notes to the financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

Basic Financial Statements

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents revenues earned and expenses incurred during the year and classifies activities as either "operating" or "non-operating". The Statement of Cash Flows presents

information related to cash inflows and outflows, categorized by operating and investing activities. The reconciliation of operating income to cash provided by operating activities explains the relationship between the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position, showing that increases and decreases in operating assets often require the use or receipt of cash but do not result in recognition of revenue or an expense.

The basic financial statements can be found beginning on page A-8 of this report.

Accounting Change

Prior to FY 2015, revenue was recorded on a cash basis. It has been converted to an accrual basis in accordance with GAAP for the year ended June 30, 2015, resulting in a prior period adjustment for FY 2015. Because the payments are based on a fee from the prior twelve months, a receivable for the months prior to the fiscal year end has been recorded. The fees applicable to the fiscal year in which the fee is received are recorded as revenue. The revenue is reflected on a consistent basis for FY 2016 and FY 2015.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page A-11 of this report.

Financial Analysis of the Authority

The Authority has continued to strengthen its financial position over the past three years. This is attributable to the Authority holding down expense growth while increasing revenues. Increased revenues are due to higher than projected application fees from bond financings and interest income from the revitalized Direct Loan Program.

A building was acquired through the default of loans in previous years. This building was sold in FY 2016 and shows as a zero balance on the financial statements.

Condensed financial statements are presented below.

Montana Facility Finance Authority
Condensed Financial Information
Changes in Net Position and Operating Income
Years Ended June 30, 2016, 2015, and 2014

| | 2016 | 2015 | 2014 |
|--|-------------------------|-------------------------|-------------------------|
| ASSETS: | | | |
| Current Assets: | | | |
| Cash & Cash Equivalents | 3,421,804 | 3,812,104 | 3,819,758 |
| Short Term Notes Receivable | 420,628 | 247,909 | 291,759 |
| Other Current Assets | 252,953 | 245,825 | 4,645 |
| Total Current Assets | <u>4,095,386</u> | <u>4,305,838</u> | <u>4,116,162</u> |
| NonCurrent Assets: | | | |
| Long Term Notes Receivable | 1,172,811 | 586,024 | 661,419 |
| Investments | 0 | 32,993 | 41,895 |
| Capital Assets | 0 | 27,841 | 29,039 |
| Total NonCurrent Assets | <u>1,172,811</u> | <u>646,858</u> | <u>732,353</u> |
| Pension Deferred Outflow | 19,730 | 12,095 | 0 |
| Total Assets | <u><u>5,287,927</u></u> | <u><u>4,964,791</u></u> | <u><u>4,848,515</u></u> |
| LIABILITIES: | | | |
| Total Current Liabilities | 84,731 | 43,125 | 38,377 |
| Total Non-current Liabilities | <u>229,351</u> | <u>203,089</u> | <u>523,586</u> |
| Total Liabilities | 314,082 | 246,214 | 561,963 |
| Pension Deferred Inflow | 11,526 | 33,551 | 0 |
| Net Investment in Capital Assets | 0 | 27,841 | 29,039 |
| Total Unrestricted Net Position | <u>4,962,319</u> | <u>4,657,185</u> | <u>4,257,514</u> |
| Total Net Position | <u>4,962,319</u> | <u>4,685,026</u> | <u>4,286,553</u> |
| Total Net Position and Liabilities | <u><u>5,287,927</u></u> | <u><u>4,964,791</u></u> | <u><u>4,848,515</u></u> |
| OPERATING REVENUES: | | | |
| Service Fees | 609,295 | 718,389 | 498,052 |
| Gain on Sale of Asset | 0 | 0 | |
| Pension Income | 4,137 | 3,509 | 6 |
| Total Operating Revenues | <u>613,432</u> | <u>721,898</u> | <u>498,058</u> |
| OPERATING EXPENSES: | | | |
| Personal services | 204,769 | 193,512 | 177,463 |
| Contracted services | 27,507 | 28,126 | 39,382 |
| Other operating expenses | 159,719 | 154,901 | 596,661 |
| Grants | 0 | 0 | 57,000 |
| Total operating expenses | <u>391,995</u> | <u>376,539</u> | <u>870,506</u> |
| Operating income | <u>221,437</u> | <u>345,359</u> | <u>(372,448)</u> |
| NON OPERATING REVENUES (EXPENSES) | | | |
| Investment Earnings | 55,893 | 38,290 | 45,712 |
| Change in Net Position | 277,330 | 383,649 | (326,736) |
| Net Position Beginning of Period | 4,685,026 | 4,286,553 | 4,613,289 |
| Prior Period Adjustment | (36) | 14,824 | 0 |
| Total Net Position End of Period | <u><u>4,962,320</u></u> | <u><u>4,685,026</u></u> | <u><u>4,286,553</u></u> |

**MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2016 AND 2015**

| ASSETS: | 2016 | 2015 |
|---|---------------------|---------------------|
| Current Assets: | | |
| Cash & Cash Equivalents (Note 2) | \$ 3,421,804 | \$ 3,812,104 |
| Interest Receivable | 1,509 | 607 |
| Accounts Receivable (Note 3) | 234,663 | 235,021 |
| Short Term Notes Receivable (Note 5) | 420,628 | 247,909 |
| Securities Lending Collateral (Note 2) | 14,287 | 8,884 |
| Travel Advance | 0 | 458 |
| Prepaid Expenses | 2,495 | 855 |
| Total Current Assets | <u>4,095,386</u> | <u>4,305,838</u> |
| Noncurrent Assets: | | |
| Long Term Notes Receivable (Note 5) | 1,172,811 | 586,024 |
| Investments | 0 | 32,993 |
| Capital Assets (Note 1) | 0 | 27,841 |
| Total NonCurrent Assets | <u>1,172,811</u> | <u>646,858</u> |
| Pension Deferred Outflows (Note 6) | 19,730 | 12,095 |
| Total Assets and Deferred Outflows of Resources | <u>\$ 5,287,927</u> | <u>4,964,791</u> |
| LIABILITIES: | | |
| Liabilities: | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 21,634 | \$ 15,215 |
| Due to Primary Government | 32,000 | 5,000 |
| Securities Lending Liability (Note 2) | 14,287 | 8,884 |
| Compensated Absences | 16,810 | 14,026 |
| Total Current Liabilities | <u>\$ 84,731</u> | <u>\$ 43,125</u> |
| Noncurrent Liabilities: | | |
| Compensated Absences | 31,728 | 33,966 |
| Net Pension Liability (Note 6) | 156,463 | 129,848 |
| OPEB Implicit Rate Subsidy (Note 7) | 41,160 | 39,275 |
| Total Noncurrent Liabilities | <u>229,351</u> | <u>203,089</u> |
| Total Liabilities | <u>314,082</u> | <u>246,214</u> |
| Pension Deferred Inflows (Note 6) | 11,526 | 33,551 |
| Net Position | | |
| Net Investment in Capital Assets | \$ 0 | \$ 27,841 |
| Total Unrestricted Net Position | 4,962,319 | 4,657,185 |
| Total Net Position (Note 8) | <u>\$ 4,962,319</u> | <u>\$ 4,685,026</u> |
| Total Net Position and Liabilities | <u>\$ 5,287,927</u> | <u>\$ 4,964,791</u> |

The accompanying notes to the financial statements are an integral part of this statement.

**MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| OPERATING REVENUES: | | |
| Service Fees | \$ 609,295 | \$ 718,389 |
| Pension Income | 4,137 | 3,509 |
| Total Operating Revenues | <u>\$ 613,432</u> | <u>\$ 721,898</u> |
| OPERATING EXPENSES: | | |
| Personal Services | \$ 204,769 | \$ 193,512 |
| Contracted Services | 27,507 | 28,126 |
| Supplies and Materials | 5,106 | 6,735 |
| Communications | 4,651 | 5,158 |
| Benefits | 16,324 | 13,229 |
| Depreciation | 1,098 | 1,198 |
| Travel | 18,989 | 23,611 |
| Rent | 25,508 | 23,153 |
| Repairs and Maintenance | 8,274 | 8,999 |
| Other Expenses | 45,788 | 43,211 |
| Component Unit Expense to Primary Government | 33,981 | 29,607 |
| Total Operating Expenses | <u>\$ 391,995</u> | <u>\$ 376,539</u> |
| Operating Income | <u>\$ 221,437</u> | <u>\$ 345,359</u> |
| NON OPERATING REVENUES (EXPENSES) | | |
| Securities Lending Income | 65 | 17 |
| Securities Lending Expense | (26) | (2) |
| Gain on Sale of Asset | 5,257 | 0 |
| Investment Earnings | 50,596 | 38,275 |
| Change in Net Position | <u>\$ 277,329</u> | <u>\$ 383,649</u> |
| Net Position Beginning of Period | <u>\$ 4,685,026</u> | <u>\$ 4,286,553</u> |
| Prior Period Adjustment (Note 1) | <u>(36)</u> | <u>14,824</u> |
| Total Net Position End of Period | <u><u>\$ 4,962,319</u></u> | <u><u>\$ 4,685,026</u></u> |

The accompanying notes to the financial statements are an integral part of this statement.

**MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

| CASH FLOWS FROM OPERATING ACTIVITIES: | 2016 | 2015 |
|---|---------------------|---------------------|
| Receipts for Sales and Services | \$ 609,653 | \$ 640,258 |
| Receipt from Operating Loan | 0 | 5,000 |
| Repayment to Coal Tax Trust | 0 | (461,860) |
| Payments to Suppliers for Goods and Services | (135,769) | (149,647) |
| Payments to Employees | (246,406) | (208,975) |
| Net Cash Provided by (Used for) Operating Activities | \$ 227,478 | \$ (175,224) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Cash Payments for Operating Loan | \$ 27,000 | \$ 0 |
| Net Cash Provided (Used) by Noncapital Financing Activities | \$ 27,000 | \$ 0 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash Payments for Loans | \$ (1,041,094) | \$ (179,797) |
| Collection for Principal on Loans | 313,591 | 299,042 |
| Proceeds from Securities Lending Income | 65 | 17 |
| Payments of Securities Lending Costs | (26) | (2) |
| Cash Adjustment for STIP SIV's | 32,993 | 8,902 |
| Interest on Investments | 49,693 | 38,024 |
| Net Cash Provided by (Used for) Investing Activities: | \$ (644,778) | \$ 166,186 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (390,300) | \$ (9,038) |
| Cash & Cash Equivalents, July 1 | \$ 3,812,104 | \$ 3,819,758 |
| Prior Period Adjustment | | 1,384 |
| Cash & Cash Equivalents, June 30 | \$ 3,421,804 | \$ 3,812,104 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | |
| Operating Income (Loss) | \$ 221,437 | \$ 345,359 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | |
| Depreciation | 1,098 | 1,198 |
| Incr (Decr) in Net Pension Liability | 26,615 | (26,996) |
| Incr (Decr) in Pension Deferred Inflows | (22,024) | 33,551 |
| Decr (Incr) in Pension Deferred Outflows | (7,635) | (12,096) |
| Change in Assets & Liabilities: | | |
| Increase (Decrease) in Accounts Payable | 6,380 | 6,598 |
| Increase (Decrease) in Due to Primary Government | 0 | 3,624 |
| Increase (Decrease) in Compensated Absences Payable | (2,238) | 9,151 |
| Increase (Decrease) in OPEB | 1,885 | 981 |
| Increase (Decrease) in Compensated Absences Payable-Current | 2,784 | 3,618 |
| Decr (Incr) in Travel Advance | 458 | (458) |
| Increase (Decrease) in LT Accounts Payable-Current | 0 | (461,860) |
| Increase (Decrease) in LT Accounts Payable | 0 | (15,144) |
| Decrease (Increase) in Accounts Receivable | 358 | (62,987) |
| Decrease (Increase) in Prepaid Expense | (1,640) | 237 |
| Total Adjustments | \$ 6,041 | \$ (520,583) |
| Net Cash Provided by (Used for) Operating Activities | \$ 227,478 | \$ (175,224) |

The accompanying notes to the financial statements are an integral part of this statement.

**MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

1. Summary of Significant Accounting Policies

Reporting Entity

The Montana Facility Finance Authority (the "Authority") was established by the State of Montana, 2-15-1815 M.C.A., to provide not-for-profit healthcare providers with access to low-cost capital. The Authority provides tax-exempt bond financing, low interest loans and limited planning grants for not-for-profit healthcare organizations and small value-added manufactures with projects of less than \$10 million.

The preceding financial statements are prepared from the Statewide Accounting Budgeting Human Resource System (SABHRS) and include the financial activity of the Authority's account in the Enterprise Fund. These statements are presented as a component unit in the State of Montana's Comprehensive Annual Financial Statement. The enterprise funds of the Authority do not comprise the entire propriety fund type of the State of Montana.

Basis of Presentation and Use of Estimates

The Authority Enterprise Fund uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Under this basis, revenues are recognized in the accounting period when realizable, measurable, and earned. Expenses are recognized in the period incurred, when measurable. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and revenues and expenses for the period then ended.

Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

The Enterprise Fund is used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges.

Accounts Receivable

Accounts receivable are comprised of balances for administrative fees under service agreements with participating facilities. Management has evaluated the reported balances and believes them to be materially collectible, therefore, no allowance for uncollectible amounts has been provided.

Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets, in accordance with state policy. The capitalization threshold for recording capital assets is \$5,000 for equipment and \$25,000 for buildings.

Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation leave. Upon termination, qualifying employees having unused accumulated vacation, exempt compensatory and sick leave receive 100 percent payment for vacation and exempt compensatory and 25 percent payment for sick leave. The accompanying financial statements reflect that liability.

Pension Deferred Inflows and Outflows of Resources

In accordance with GAAP, certain elements representing a consumption of net assets by the Authority that are applicable to a future reporting period are reported as deferred outflows of resources. The balance reported by the Authority for pension deferred outflows relates to pension contributions made during the fiscal years ended June 30, 2015 and 2014 which are recognized under GASB 68 in the respective following fiscal year. Pension deferred

**MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

inflows relate to the difference between projected and actual earnings on pension plan investments allocated to the Authority.

Classification of Net Position

Net Investment in Capital Assets

This is the Authority's investment in capital assets, net of depreciation, related bonds and notes payable, as well as deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets and related debt.

Unrestricted Net Position

These are resources over which the governing board has discretionary control.

Prior Period Adjustments

Prior to FY 2015, the Authority recorded revenue on a cash basis. Revenue was converted to an accrual basis according to GAAP for the year ended June 30, 2015. As part of this conversion, a prior period adjustment was made for \$171,668. See footnote 3 for more information on the change to accrual accounting.

The Authority implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, during fiscal year 2015. A prior period adjustment was made for \$156,844 in relation to this implementation. See footnote 6 for more information on new pension standards.

New Accounting Pronouncements:

The Authority has adopted the provisions of the following GASB pronouncements for fiscal year 2015:

Statement No. 68 – *Accounting and Financial Reporting for Pensions*. This Statement establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This resulted in a prior period adjustment. This Statement is effective for fiscal years beginning after June 15, 2014.

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement addresses a transition issue related to GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The statement specifies that these contributions be reported as deferred cash outflows.

The Authority has adopted the provisions of the following GASB pronouncement for fiscal year 2016:

Statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement of financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

2. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

Cash and Cash Equivalents as presented on the accompanying Statement of Net Position and Statement of Cash Flows represents the Authority's cash of \$31,392 and \$2,902 as of June 30, 2016 and 2015 respectively, and cash

**MONTANA FACILITY FINANCE AUTHORITY
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equivalents invested in the Board of Investments (BOI) of the State of Montana Short-Term Investment Pool (STIP) of \$3,390,412 and \$3,809,202 for fiscal year 2016 and 2015, respectively. STIP balances include \$32,993 for fiscal year 2015 of investments that are no longer liquid and classified as non-current assets (see last paragraph of Note 2 for further clarification). STIP was recorded at amortized cost for FY 2015 and at fair value for FY 2016. The Authority invests its residual funds, by law, in STIP. STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. Cash and cash equivalents are defined as a short-term, highly liquid investment that is readily convertible to known amounts of cash.

STIP - This Pool is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants. Funds may be invested for one or more days. The STIP investments and the income are owned by the participants and are managed on their behalf by the BOI. For the fiscal year ending June 30, 2015, STIP is presented in the BOI Statement of Net Asset Value at "book" or amortized cost. For the fiscal year ending June 30, 2016, STIP is presented in the BOI Statement of Net Asset Value at fair value.

The portfolio may include asset-backed securities, commercial paper, corporate, U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they are a variable rate security.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 2 to 270 days. U.S. Government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. Government. U.S. Government indirect-backed obligations include U.S. Government agency. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

Securities Lending

The BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, ("the Bank"), to lend the BOI securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The BOI and the Bank split the earnings, 80/20% respectively, on security lending activities. The BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2016 and 2015, the Bank loaned the BOI public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

The BOI imposed no restrictions on the amount of securities available to lend during fiscal years 2016 and 2015. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2016 and 2015 resulting from a borrower default.

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During fiscal years 2016 and 2015, the BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Each is comprised of a liquidity pool. In March 2015, the BOI sold all of the holding within the duration pool of both the Quality D Short Term Investment Fund and the Security Lending Quality Trust, which resulted in a loss to the pool of \$200 thousand and \$26 thousand, respectively. Security lending income offset the entire amount of the loss within each investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2016 and 2015, State Street Bank indemnified the BOI credit risk exposure to borrowers.

According to the presentation of information from BOI in the notes of its FY 2016 Audited Financials, as of June 30, 2016, the fair value of the underlying securities on loan, categorized as corporate debt for the Short Term Investment Pool was \$12,592 thousand. The collateral provided for the securities on loan totaled \$11,844 thousand in cash and \$1,025 thousand in securities. As of June 30, 2015, the fair value of the underlying securities on loan, categorized as corporate debt for the Short Term Investment Pool was \$5,686 thousand. The collateral provided for the securities on loan totaled \$5,806 thousand in cash. For June 30, 2016, the security lending gross income was \$48 thousand with expenses of \$19 thousand for net income of \$29 thousand. For June 30, 2015, the security lending gross and net income was \$10 thousand with expenses of \$1 thousand for net income of \$9 thousand.

Investments

Investments held at June 30, 2015 and 2016 are comprised of the STIP funds described above. In FY 2015, certain assets were considered long term. In FY 2016, no assets were deemed to be long term.

Investment Risk Disclosures

Effective June 30, 2007, the Authority implemented the provisions of GASB Statement No. 40 – Deposit and Investment Risk Disclosures. The required GASB 40 risk disclosure for the Authority is described below:

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority's investment is limited to STIP managed by the BOI. The Authority does not have a policy related to STIP investments. The BOI's STIP investment policy specifies that STIP securities have a minimum of two separate credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP investment policy depending on the type of investment.

STIP investments are considered cash equivalents, unless BOI management determines that a portion of its portfolio is sufficiently long term and should be considered investments. In such cases, each participant in the pool is allocated its pro-rata share of illiquid funds.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. The U.S. government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). The BOI STIP Investment Policy limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution. As of June 30, 2016 and 2015, STIP concentration risk was within the policy as set by the BOI board.

Custodial Credit Risk - STIP is managed by the BOI. STIP securities are registered in the nominee name for the BOI and held in the possession of its custodial bank, State Street Bank and Trust.

MONTANA FACILITY FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

- 1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities; and
- 3) STIP will maintain a reserve account.”

Legal and Credit Risk

The Authority’s risk is derived from the STIP Pool as a whole, not with specific securities held by the Pool.

Fair Value Measurement

GASB 72 requires investments to be categorized within the fair value hierarchy established by generally accepted accounting principles as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets.
- Level 2 - Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Prices are determined using unobservable inputs.

The Authority does not have any investments required to be categorized in Level 1, 2 or 3.

Investments Measured at NAV*
(in thousands)

| | (in thousands) | June 30, 2016 | | |
|----------------------------|----------------|-------------------------|---|-----------------------------|
| | (NAV) | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
| Short Term Investment Pool | \$3,390 | \$0 | Daily | 1 day |

STIP – This external investment pool is managed and administered under the direction of the BOI as authorized by the Unified Investment Program. It is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

For the year ended June 30, 2015, STIP investments were recorded at amortized cost. Therefore, a fair value detail is not presented.

For further information on investments at NAV please contact BOI at www.investmentmt.com.

Montana Board of Investments
2401 Colonial Dr, 3rd Floor
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Helena, MT 59620-0126

MONTANA FACILITY FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

3. Accounting Change

Prior to FY 2015, revenue was recorded on a cash basis. Revenue has been converted to the accrual basis in accordance with GAAP for the year ended June 30, 2015, resulting in a prior period adjustment for FY 2015. Because the payments are based on a fee from the prior twelve months, a receivable for the months prior to the fiscal year end has been recorded. The fees applicable to the fiscal year in which the fee is received are recorded as revenue. The revenue is reflected on a consistent basis for FY 2016 and FY 2015.

4. Revenue Bonds and Notes Outstanding

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by Borrowers, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of security and liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

Most loans financed with bond proceeds are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the Borrower. Other loan payments are secured by a Master Note issued under a Master Trust Indenture of an Obligated Group or by standby letters of credit from financial institutions rated "A" or better. These liabilities do not constitute a general obligation debt or liability of the State of Montana, or any political subdivision thereof and accordingly, do not appear on the Statement of Net Position.

The Health Care Revenue Bonds (Montana State Hospital Project) Series 1997 are special obligations of the state, payable solely from the facility revenue of the Montana State Hospital and the Montana Mental Health Nursing Center, both owned by the state and operated by the Montana Department of Public Health and Human Services. The Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003 (which refunded the Health Care Revenue Bonds (Montana Developmental Center Project) Series 1994) are special obligations of the state, payable solely from the facility revenue of the Montana Developmental Center, which is owned by the state and operated by the Montana Department of Public Health and Human Services. On April 25, 2016 the Montana Development Center Series 2003 Bonds were called as part of the closing of the Development Center. The Health Care Revenue Bonds (Montana State Hospital Project) Series 1997 and the Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003 do not constitute a general obligation debt of the state or obligate the state to appropriate or apply any funds or revenue of the state, other than the respective facility revenue and each of such bond issues are reflected in the State of Montana Basic Financial Statements.

Following is a schedule of revenue bonds and note outstanding as of June 30, 2016 and 2015:

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Revenue Bonds & Notes Outstanding:

| Issue | Period Outstanding | Type of Interest Rate | Outstanding June 30, 2016 | Outstanding June 30, 2015 |
|--|---------------------------|------------------------------|----------------------------------|----------------------------------|
| Development Disability Facility Revenue Bonds (Beartooth Industries) Series 1997 | 1997-2024 | Fixed | 115,084 | 126,340 |
| Prerelease Center Revenue Bonds (Alternatives) Series 1997 | 1997-2017 | Fixed | 440,000 | 645,000 |
| Health Care Revenue Bonds (Montana State Hospital) Series 1997 | 1997-2022 | Fixed | 9,695,000 | 11,055,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association) Series 1998A | 1998-2018 | Fixed | 210,000 | 305,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County) Series 1998D | 1998-2018 | Fixed | 125,000 | 185,000 |
| Developmental Disability Facilities Revenue Bonds (Opportunity Resources) Series 1998 | 1998-2018 | Fixed | 25,780 | 38,596 |
| Prerelease Center Revenue Bonds (Missoula Correctional Services) Series 1998A | 1998-2018 | Fixed | 1,230,000 | 1,600,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program-Marcus Daly Memorial Hospital Corporation) Series 2000 | 2000-2020 | Fixed | 1,225,000 | 1,430,000 |
| Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000 | 2000-2020 | Fixed | 825,000 | 960,000 |
| Health Care Revenue Refunding Bonds (Montana Developmental Center) Series 2003 | 2003-2019 | Fixed | 0 | 3,625,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program – Marias Medical Center) Series 2005A | 2005-2028 | Fixed | 2,070,000 | 2,180,000 |
| Prerelease Center Revenue Bond (Boyd Andrew Community Services) Series 2005 | 2005-2021 | Fixed | 460,319 | 549,472 |
| Health Facilities Revenue Bonds (Bozeman Deaconess Health Services Obligated Group) Series 2005 | 2005-2035 | Fixed | 0 | 21,240,000 |
| Developmental Disability Facility Revenue Bond (Spring Meadow Resources) Series 2005 | 2005-2021 | Fixed | 232,239 | 276,737 |
| Prerelease Center Revenue Bond (Great Falls Pre-Release Services) Series 2005 | 2005-2021 | Fixed | 1,887,834 | 2,211,832 |
| Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Northern Montana Obligated Group) Series 2006A | 2006-2016 | Fixed | 0 | 475,000 |
| Revenue Bonds (Providence Health & Services) Series 2006B | 2006-2026 | Fixed | 54,495,000 | 58,170,000 |
| Prerelease Center Revenue Bonds (Alternatives) Series 2006 | 2006-2026 | Fixed | 0 | 5,410,000 |
| Revenue Bonds (Community, Counseling, and Correctional Services) Series 2006A | 2006-2026 | Fixed | 0 | 6,485,000 |
| Revenue Bonds (Boyd Andrew Community Services) Series 2006B | 2006-2026 | Fixed | 3,330,000 | 3,565,000 |
| Senior Living Revenue Bonds (St. John's Lutheran Ministries) Series 2006A | 2006-2036 | Fixed | 0 | 22,295,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program - Marcus Daly Memorial Hospital) Series 2007A | 2007-2027 | Fixed | 4,930,000 | 5,245,000 |
| Hospital Revenue Bonds (Benefis Healthcare System) Series 2007 | 2007-2037 | Fixed | 101,750,000 | 105,270,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program – Northeast Montana Health Services) Series 2007B | 2007-2032 | Fixed | 9,810,000 | 10,225,000 |
| GE Capital Public Finance Program Revenue Note (Kalispell Regional Medical Ctr) Series 2007 | 2007-2017 | Fixed | 270,456 | 529,756 |
| Health Care Facilities Revenue Bonds (Master Loan Program – St. Luke Community Healthcare Network) Series 2007C | 2007-2032 | Fixed | 18,085,000 | 18,825,000 |

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| Issue | Period Outstanding | Type of Interest Rate | Outstanding June 30, 2016 | Outstanding June 30, 2015 |
|--|---------------------------|------------------------------|----------------------------------|----------------------------------|
| Hospital Revenue Bonds (Billings Clinic) Series 2008A | 2008-2028 | Fixed | 11,315,000 | 12,720,000 |
| Hospital Revenue Bonds (Billings Clinic) Series 2008B | 2008-2028 | Fixed | 14,660,000 | 14,660,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program – Glendive Medical Center) Series 2008A | 2008-2034 | Fixed | 25,300,000 | 26,180,000 |
| Revenue Bonds (Rimrock Foundation) Series 2009 | 2009-2030 | 5-year Fixed | 456,598 | 483,155 |
| Health Facilities Revenue Note (Bozeman Deaconess Health Services) Series 2010B | 2010-2015 | Fixed | 1,790,000 | 2,640,000 |
| Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010A | 2010-2024 | Fixed | 106,060,000 | 106,060,000 |
| Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010B | 2010-2040 | Fixed | 73,190,000 | 80,160,000 |
| Health Care Facilities Revenue Bonds (Master Loan Program – Powell County Memorial Hospital) Series 2010A | 2010-2036 | Fixed | 15,000,000 | 15,000,000 |
| Health Care Facilities Revenue Bonds (Powell County Memorial Hospital) Series 2010B | 2010-2018 | Fixed | 1,205,000 | 1,635,000 |
| Taxable Revenue Build America Bonds (Barrett Hospital and Health Care) Series 2010A | 2010-2037 | Fixed | 29,165,000 | 29,165,000 |
| Taxable Revenue Bonds (Barrett Hospital and Health Care) Series 2010B | 2010-2016 | Fixed | 0 | 760,000 |
| Health Care Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2010 | 2010-2040 | Fixed | 51,555,000 | 53,770,000 |
| Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2010 | 2010-2030 | Fixed | 1,155,560 | 1,205,364 |
| Hospital Revenue Bonds (Benefis Health Care System) Series 2011A | 2011-2031 | Fixed | 41,250,000 | 41,545,000 |
| Hospital Revenue Bonds (Benefis Health Care System) Series 2011B | 2011-2030 | Fixed for 7-years | 14,265,000 | 14,990,000 |
| Acquisition and Refunding Revenue Note (Sapphire Lutheran Homes) Series 2011 | 2011-2041 | Fixed for 5-years | 4,456,778 | 4,569,099 |
| Banc of America Public Capital Corp Program Revenue Note (Kalispell Regional Medical Center) Series 2011A | 2011-2016 | Fixed | 0 | 503,122 |
| Banc of America Public Capital Corp Program Revenue Note (Kalispell Regional Medical Center) Series 2011B | 2011-2018 | Fixed | 710,993 | 1,026,090 |
| Health Facilities Revenue Bonds (Billings Clinic) Series 2011A | 2011-2038 | Fixed for 3-years | 68,385,000 | 69,910,000 |
| Health Facilities Revenue Bonds (Billings Clinic) Series 2011B | 2011-2038 | Fixed for 5-years | 59,255,000 | 60,580,000 |
| Revenue Bond (St. John's Lutheran Ministries) Series 2011 | 2011-2031 | Fixed for 5-years | 0 | 3,909,835 |
| Health Facilities Revenue Bonds (Bozeman Deaconess Health Services) Series 2011 | 2011-2031 | Fixed | 16,835,000 | 17,675,000 |
| Revenue Bond (North Valley Hospital) Series 2012 | 2012-2027 | Fixed for 10-years | 19,211,168 | 20,637,637 |
| Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2012 | 2012-2033 | Fixed | 1,561,218 | 1,621,720 |
| Health Facilities Revenue Bonds (St. Peter's Hospital) Series 2013 | 2013-2024 | Fixed | 15,960,000 | 17,760,000 |
| Revenue and Refunding Bond (Missions United) Series 2014 | 2014-2039 | Fixed for 5-years | 26,842,322 | 30,000,000 |
| Health Facilities Revenue and Refunding Bonds (Bozeman Deaconess Health Services Obligated Group) Series 2014A | 2014-2044 | Fixed | 21,285,000 | 21,535,000 |
| Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2014 | 2014-2035 | Variable | 0 | 58,945,000 |

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| Issue | Period Outstanding | Type of Interest Rate | Outstanding June 30, 2016 | Outstanding June 30, 2015 |
|--|---------------------------|------------------------------|----------------------------------|----------------------------------|
| Banc of America Public Capital Corp Revenue Note (Kalispell Regional Medical Center) Series 2014 | 2014-2024 | Fixed | 14,552,022 | 16,108,055 |
| Banc of America Public Capital Corp Revenue Note (Bozeman Deaconess Health Services) Series 2014 | 2014-2024 | Fixed | 8,561,819 | 9,476,060 |
| Revenue Bond (North Valley Hospital) Series 2014 | 2014-2030 | Fixed for 11-years | 1,462,185 | 1,500,000 |
| Health Facilities Revenue Note (Bozeman Deaconess Health Services Obligated Group) Series 2015A | 2015-2046 | Fixed | 22,000,000 | 22,000,000 |
| Health Facilities Revenue Note (Bozeman Deaconess Health Services Obligated Group) Series 2015B | 2015-2046 | Fixed | 8,000,000 | 8,000,000 |
| Hospital Facilities Revenue Refunding Bond (St. Peter's Hospital) Series 2015 | 2015-2022 | Fixed | 13,580,000 | 14,945,000 |
| Refunding Revenue Bond (Montana Children's Home and Hospital) Series 2015 | 2015-2025 | Fixed | 3,845,419 | 4,443,001 |
| Direct Note (St. John's Lutheran Ministries) Series 2015A | 2015-2041 | Variable | 4,191,136 | 0 |
| Health Facilities Revenue Bond (Bozeman Deaconess Health Services Obligated Group) Series 2015C | 2015-2035 | Variable | 17,420,000 | 0 |
| Prerelease Center Revenue Refunding Bond (Alternatives) Series 2015 | 2015-2025 | Fixed | 5,145,000 | 0 |
| Refunding Revenue Bond (Community, Counseling, and Correctional Services) Series 2015 | 2015-2026 | Fixed | 6,225,000 | 0 |
| Banc of America Public Capital Corp Program Revenue Note (Kalispell Regional Medical Center) Series 2016 | 2016-2026 | Fixed | 5,818,534 | 0 |
| Revenue Bond (Intermountain Children's Services) Series 2016 | 2016-2041 | Variable | 6,826,768 | 0 |
| Revenue Bond (St. John's Lutheran Ministries) Series 2015B | 2015-2041 | Variable | 20,749,903 | 0 |
| Total Revenue Bonds & Notes Outstanding | | | \$970,459,137 | \$1,069,040,870 |

Stated maturities on Revenue Bonds & Notes Outstanding are as follows:

| Maturing in Year Ended June 30 | Bond Principal Payment (in thousands) |
|---------------------------------------|--|
| 2017 | \$ 48,404 |
| 2018 | 46,435 |
| 2019 | 46,628 |
| 2020 | 48,632 |
| 2021-2046 | 780,360 |
| Total | \$970,459 |

The revenue bonds and notes are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements and, further, from the funds created by the indentures and investment earnings thereon.

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5. Notes Receivable

The Notes Receivable include loans made under the Authority's Direct Loan Program. The Short-Term Notes Receivable represents the portion of the loans that are due within the year following the balance sheet date.

Revenue Notes Receivable:

(Authority Direct Loans)

| Issue | Period Outstanding | Interest Rate | Outstanding June 30, 2016 | Outstanding June 30, 2015 |
|---|--------------------|---------------|---------------------------|---------------------------|
| Rimrock Foundation | 2008-2020 | 5.93% | 85,255 | 102,373 |
| Spring Meadow Resources | 2008-2020 | 5.93% | 126,688 | 152,126 |
| Mineral Community Hospital | 2011-2015 | 3.00% | 0 | 2,204 |
| Wheatland Memorial Hospital | 2011-2016 | 3.00% | 5,817 | 22,924 |
| Broadwater Health Center | 2012-2017 | 3.00% | 13,889 | 26,314 |
| Roundup Memorial Healthcare | 2012-2017 | 3.00% | 3,836 | 7,559 |
| Livingston Healthcare | 2012-2017 | 3.00% | 48,642 | 88,998 |
| Big Horn Hospital Association | 2012-2017 | 3.00% | 56,250 | 96,981 |
| Fallon Medical Complex | 2012-2016 | 3.00% | 8,555 | 28,654 |
| Central Montana Medical Center | 2014-2019 | 3.00% | 78,119 | 104,139 |
| Roosevelt Medical Center | 2014-2018 | 3.00% | 21,322 | 28,012 |
| Fallon Medical Complex | 2014-2019 | 3.00% | 26,045 | 35,596 |
| Pondera Medical Center | 2015-2020 | 3.00% | 111,606 | 138,054 |
| Mineral Community Hospital | 2015-2020 | 2.00% | 63,845 | 0 |
| Madison Valley Medical Center | 2015-2022 | 2.00% | 279,942 | 0 |
| Central Montana Medical Center | 2016-2021 | 2.00% | 123,444 | 0 |
| Southwest Montana Community Health Care | 2016-2021 | 2.00% | 280,770 | 0 |
| Central Montana Medical Center | 2016-2021 | 2.00% | 50,349 | 0 |
| Rosebud Health Care Center | 2016-2021 | 2.00% | 177,065 | 0 |
| Total Revenue Notes Receivable | | | \$1,561,440 | \$833,934 |

On May 31, 2016 a Promissory Note was entered into between the Authority and Gateway Community Services for \$32,000 for the approximate cost of the Authority purchasing a condo unit during remediation of defaulted loans. The Note has an interest rate of 0% and will begin payment on July 15, 2016. The note will mature June 15, 2026. For more information on the Promissory Note, see footnote 9.

6. Employee Benefits

Retirement Benefits – General Plan Information

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pension*, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. These amounts are included in the Authority's financial statements as of and for the years ended June 30, 2015 and 2016.

The Authority and its members contribute to either the PERS Defined Benefit Retirement Plan (DBRP) or the PERS Defined Contribution Retirement Plan (DCRP) for its employees that have elected the DCRP. Both plans are administered by the Montana Public Employees Retirement Board (PERB) and its staff, the Montana Public Employee Retirement Administration (MPERA). The DBRP is a multiple-employer, cost-sharing plan established

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July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). The DCRP is a multiple-employer plan established July 1, 2002. Both plans provide retirement, disability and death benefits plan members and the beneficiaries.

All new PERS members are initially members of the DBRP and have a 12-month window during which they may choose to remain in the DBRP or join the DCRP by filing an irrevocable election. Members may not be members of both the defined benefit and defined contribution retirement plans. For members that choose to join the DCRP, a percentage of the employer contributions will be used to pay down the liability of the DBRP.

DBRP plan benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service.

DCRP benefits depend upon eligibility and individual account balances. Participants are immediately vested in their own contributions and attributable income. Participants are vested after 5 years of membership service in the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the DCRP.

At the plan level for the year ended June 30, 2016, the DCRP plan member contributions were \$10 million; employer contributions were \$6 million; and employers did not recognize any pension expense for the defined contribution plan. For the year ended June 30, 2016, plan level non-vested forfeitures for the 289 employers that have participants in the DCRP totaled \$383 thousand. For the year ended June 30, 2015, plan level non-vested forfeitures for the 278 employers that have participants in the PERS-DCRP totaled \$323 thousand.

For the purposes of measuring net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position, have been determined on the same accrual basis as they are reported by PERS. For this purpose, member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Investments are reported at fair value. PERS adheres to all applicable GASB statements.

The State of Montana has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from:

Public Employees Retirement Division
PO Box 200131
100 South Park, Suite 220
Helena, MT 59620-0131
406-444-3154

Or online at: <http://mpera.mt.gov>

The information contained within MPERA's financial statements will only display information in regard to PERS in total and will not display information specific to the Authority as an entity.

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Authority Net Pension Liability and Expense

At June 30, 2016, the Authority recorded a liability of \$156,463 for its proportionate share of the DBRP Net Pension Liability and \$19,730 for its proportionate share of the pension expense. At June 30, 2015, the Authority recorded a liability of \$129,848 for its proportionate share of the DBRP Net Pension Liability and \$12,095 for its proportionate share of the pension expense. The Authority's Net Pension Liability at June 30, 2015 was based on the contributions received by PERS from the Authority during the measurement period of July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. The Authority's Net Pension Liability at June 30, 2016 was based on contributions received by PERS from the Authority during the measurement period of July 1, 2014 through June 30, 2015. At June 30, 2016, the Authority's proportion was 0.011193%.

Authority and Plan Level Deferred Pension Inflow/Outflow:

The Authority recognized a beginning deferred outflow of resources of \$19,730 for the Authority's FY 2016 contribution and a deferred outflow of resources of \$12,095 for the Authority's FY 2015 contribution. The pension deferred inflow was \$11,526 for FY 2016 and \$33,551 for FY 2015 which are related to the net difference between projected and actual earning on pension plan investments.

At the plan level, the impact of experience gains or losses and assumption changes on the TPL are recognized in the collective Pension Expense over the average expected remaining service life of all active and inactive members of the Plan, determined as of the beginning of the measurement period. As of June 30, 2014, this average was 4.36 years, which was round to 4.00 years for recognition purposes. During the measurement year, there were no assumptions changes. There was an experience gain of approximately \$11.3 million with approximately \$2.8 million of that was recognized in the current year and will be recognized in each of the next three years on a plan level.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of approximately \$153.9 million at the plan level. Approximately \$30.8 million of that was recognized in the current year and will be recognized in each of the next four years by the plan. Unrecognized investment gains from prior periods were approximately \$321.9 million of which \$80.5 million was recognized as a reduction in the collective Pension Expense of the plan.

The combination of unrecognized investment losses and experience gains this year along with unrecognized net investment gains from prior periods results in a collective Deferred Inflow of Resources as of June 30, 2015 of approximately \$126.8 million on the plan level, of which \$8.5 million was the difference between expected and actual experience and \$118.3 million was the net difference between projected and actual earnings on pension plan investments.

Amounts reported as deferred outflows of resources related to pension resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | Deferred Outflows/Inflows of Resources |
|---------------------|---|
| 2017 | \$(3,563) |
| 2018 | (3,563) |
| 2019 | (3,607) |
| 2020 | 3,445 |
| 2021 | n/a |
| Thereafter | n/a |

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Following are additional required disclosures:

Summary of Benefits:

Member benefits are calculated using a formula based on salary and years of service as follows:

Member's Highest Average Compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for Benefits

Service retirement:

| | |
|---------------------------------|--|
| Hired prior to July 1, 2011: | Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service. |
| Hired on or after July 1, 2011: | Age 65, 5 years of membership services; Age 70, regardless of membership service. |

Early retirement, actuarially reduced:

| | |
|---------------------------------|---|
| Hired prior to July 1, 2011: | Age 50, 5 years of membership service; or Any age, 25 years of membership service. |
| Hired on or after July 1, 2011: | Age 55, 5 years of membership service. |

Vesting

5 years of membership service

Monthly Benefit Formula:

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- For members hired after July 1, 2013 –
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%;
 - 0% whenever the amortization period for PERS is 40 years or more

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Overview of Contributions:

Contribution rates for the plans are specified by State law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contributions rates to the plans. Currently members are required to contribute 7.9% of their compensation. By statute, the 7.9% member contribution is temporary and will be decreased to 6.9% on January 1 of the year when the actuarial valuation results show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

The Authority was required to contribute 8.37% of the members' compensation for FY 2016 and 8.27% for FY 2015. Following the 2013 Legislative Session, PERS employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014 employer contributions increased an additional 0.1% each year for 10 years, through 2024. The employer additional contribution, including the 0.27% added in 2007 and 2009, terminates on January 1 of the year following actuary valuation results that show the amortization period of PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contribution rates. The additional contributions were not terminated on January 1, 2016 or January 1, 2015.

Effective July 1, 2013, DBRP received other contributions including 1% of the DCRP employer contributions for participants, additional Plan Choice Rate contributions, and additional contributions from the coal severance tax fund and interest income from the coal severance tax permanent fund. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required. Effective March 2016, the 1% of DCRP employer contributions previously directed to the DBRP are now directed to member accounts.

PERS received 100% of the required contributions from the Authority in the amount of \$24 thousand for the fiscal year ended June 30, 2016 and \$23 thousand for the fiscal year ended June 30, 2015.

Assumptions and Other Inputs*Actuarial Assumptions:*

The Total Pension Liability (TPL) as of June 30, 2015, is based on the result of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumption used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00% (includes inflation at 3.00%)
- Merit Increase 0.00% to 6.00%
- Investment Return 7.75%
- Administrative expense of 0.27% of payroll
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Tables projected to 2015 with scale AA.
- Mortality assumptions among disabled retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.
- Postretirement Benefit (GABA) Increases – adjusted as described above, depending on hire date

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually

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required rates under Montana Code Annotated. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. The contributions from the Coal Tax Severance fund are not a special funding situation. Contributions provided by the Coal Tax revenue for the Authority were \$4,137 and \$3,509 as of June 30, 2016 and 2015 respectively. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all of the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

Long-term Expected Rate of Return:

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class in the System's target asset allocation as of June 30, 2015 and 2014 respectively.

The assumed asset allocation of the pension plan's portfolio and the long-term expected real rate of return for each major asset class are as follows:

| As of June 30, 2015 | | |
|----------------------------|---------------------------------------|--|
| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
| Cash Equivalents | 2.00% | (0.25%) |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.10% |
| Fixed Income | 24.00% | 1.25% |
| Private Equity | 12.00% | 8.00% |
| Real Estate | 8.00% | 4.25% |

| As of June 30, 2014 | | |
|----------------------------|---------------------------------------|--|
| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
| Cash Equivalents | 2.00% | (0.25%) |
| Domestic Equity | 36.00% | 4.80% |
| Foreign Equity | 18.00% | 6.05% |
| Fixed Income | 24.00% | 1.68% |
| Private Equity | 12.00% | 8.50% |
| Real Estate | 8.00% | 4.50% |

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Sensitivity Analysis:

The below table represents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

| Authority's Net Pension Liability for Year Ended June 30 | 1.0% Decrease (6.75%) | Current Discount Rate | 1.0% Increase (8.75%) |
|---|--------------------------|--------------------------|--------------------------|
| 2016 | \$ 241,232 | \$ 156,463 | \$ 84,876 |
| 2015 | \$ 206,575 | \$ 129,848 | \$ 65,137 |

Summary of Significant Accounting Policies – DBRP:

The DBRP prepares its financial statements using the accrual basis of accounting. For the purposes of measuring Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position, have been determined on the same accrual basis as they are reported by MPERA. Investments are reported at fair value. MPERAS adheres to all applicable GASB statements.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability (NPL) and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Deferred Compensation Plan: The Authority's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

Health Care: Authority staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division. Montana Department of Administration established monthly medical premiums vary between \$963 - \$1,260 and \$845 - \$1,134 for fiscal years 2016 and 2015 respectively, depending on the medical plan selected, family coverage, and eligibility. Administratively established monthly premiums vary between \$41 - \$70 and \$22 - \$68.50 for fiscal years 2016 and 2015 dental coverage. Monthly premiums for fiscal year 2016 and 2015 optional vision hardware plans range from \$7.64 - \$22.26 and \$5.76 - \$16.76, depending on family coverage and eligibility. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 20% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

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7. OPEB – OTHER POST EMPLOYMENT BENEFITS

The State of Montana provides optional postemployment health care benefits in accordance with Montana Code Annotated (MCA), Title 2, Chapter 18, Section 704, to employees and dependents who elect to continue coverage and pay administratively established premiums. Coverage is provided through the State Group Benefits Plan.

The Authority follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires the following disclosure of employer liability for retiree medical subsidies and other post-employment benefits. For financial statement reporting purposes, the State Group Benefits Plan is considered an agent multiple-employer plan and the Authority is considered to be a separate employer participating in the plan. Each participating employer is required by GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The State Group Benefits Plan allows retirees to participate as a group, at a rate that does not cover all of the related costs. Retiree participation results in the reporting of an "implied rate" subsidy in the Authority's financial statements and footnotes as OPEB liability. The OPEB liability is disclosed for financial statement purposes but does not represent a legal liability of the State Group Benefits Plan or the Authority.

Post-Employment Healthcare Plan Description:

Authority staff and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with MCA 2-18-704, the State provides optional postemployment medical, vision and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents (2) surviving dependents of deceased employees.

In addition to the employee benefits described in Note 6, Employee Benefit Plans, the following post-employment benefits are provided:

Montana Department of Administration established retiree medical, dental and optional vision hardware premiums for fiscal years 2016 and 2015 are reported below. Premiums vary depending on the coverage selected. Basic life insurance in the amount of \$14,000 is provided until age 65 at a cost of \$1.90 per month to the retiree. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to \$600 for diagnostic/preventative and \$1,800 for repair/reconstructive services annually. The State acts as secondary payer for retired Medicare-eligible claimants.

| Retiree Premiums | CY 2016 | CY 2015 |
|--------------------------|-------------------|------------------|
| Non-Medicare Medical | \$1,043 - \$1,506 | \$931 - \$1,345 |
| Medicare Medical | \$416 - \$863 | \$371 - \$771 |
| Dental | \$41.10 - \$70 | \$22 - \$68.50 |
| Optional Vision Hardware | \$7.64 - \$22.26 | \$5.76 - \$16.76 |

Benefits Not Included in the Valuation:

Retirees pay 100 percent of dental premiums. Thus, there is no liability for dental valued in this valuation. The vision benefit is fully-insured and retirees pay 100 percent of the cost. Thus, there is no liability for vision valued in this valuation. The life insurance benefit is a fully-insured benefit that is payable until age 65 with the retiree required to pay the full premium. There is no liability valued in this valuation for the retirees, though the required premium is an active/retiree blended premium. This liability would be insignificant to the overall results of this valuation.

MONTANA FACILITY FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Funding Policy:

The following estimates were prepared for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan contains the Authority's data and is available through:

Montana Department of Administration
 State Financial Services Division
 Rm 255, Mitchell Bldg., 125 N Roberts St
 PO Box 200102,
 Helena, MT 59620-0102.

GASB Statement No. 45 requires the plan's participants, including the Authority, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The 2016 and 2015 ARC is calculated for all the plan's participants then allocated to individual participants. The Authority's 2016 estimated ARC is based on the plan's current ARC rate of 1.43% percent of participants' annual covered payroll. The Authority's 2015 estimated ARC is based on the plan's current ARC rate of 2.12% percent of participants' annual covered payroll. The Authority's ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

The amount of the estimated OPEB obligation determined in accordance with the GASB Statement No. 45 is estimated at \$39,275 and \$41,160 for the Authority at June 30, 2015 and 2016, respectively. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions of employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows the actuarial value of plan assets and liabilities.

In the December 31, 2015, actuarial valuation, the projected unit cost funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 3.4% for medical and 10.8% prescription drugs. The decrease to the medical costs trend rate in plan year 2015 is based on actual trend data instead of estimated trend rates. The medical rate increases to an actuarially determined 9.5% in 2016. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.0%, medical costs after eleven years and prescription drugs after six years. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning for calendar year 2015.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. Therefore, the following cost information shows no plan assets made by the Authority.

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Annual OPEB Cost

For 2016 and 2015, the Authority's allocated annual OPEB cost (expense) of \$1,885 and \$2,365 respectively as adjusted for amortization of the net OPEB obligation plus interest on the prior year obligation amount, less employer contributions. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Authority Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|-------------------------|--|---------------------|
| 6/30/2014 | \$3,975 | \$623 | 16% | \$36,910 |
| 6/30/2015 | \$3,294 | \$929 | 28% | \$39,275 |
| 6/30/2016 | \$2,508 | \$623 | 25% | \$41,160 |

| Fiscal Year Ended June 30, | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|
| Annual Required Contribution (ARC) | \$ 2,351 | \$ 3,116 | \$ 3,106 |
| Interest | \$ 726 | \$ 824 | \$ 1,070 |
| Amortization | \$ 569 | \$ 617 | \$ 202 |
| Annual OPEB Cost | \$ 2,508 | \$ 3,294 | \$ 3,975 |
| Contributions | \$ 623 | \$ 929 | \$ 623 |
| Percentage of Annual OPEB Cost Contributed | 25% | 28% | 16% |
| Net OPEB Obligation | \$ 41,160 | \$ 39,275 | \$ 36,910 |
| Net Increase/(Decrease) in OPEB Obligation | \$ 1,885 | \$ 2,365 | \$ 3,351 |

Funded Status and Funding Progress

The funded status of the Authority's allocation of the plan as of June 30, 2016 and June 30, 2015, were as follows:

| Fiscal Year Ended June 30, | 2016 | FY 2015 | FY 2014 |
|---|------------|------------|------------|
| Actuarial Accrued Liability (AAL) | \$ 41,103 | \$ 35,012 | \$ 43,316 |
| Actuarial Value of Plan Assets | - | - | - |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ 41,103 | \$ 35,012 | \$ 43,316 |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | - | - | - |
| Covered Payroll (Active Plan Members) | \$ 164,796 | \$ 146,743 | \$ 129,737 |
| UAAL as a Percentage of Covered Payroll | 25% | 24% | 33% |
| ARC as a Percentage of Covered Payroll | 1.4% | 2.1% | 2.4% |

Refer to the State of Montana Comprehensive Annual Financial Report (CAFR) Note 7. The State of Montana CAFR is available at the Department of Administration, Administrative and Financial Services Division's website at <http://afsd.mt.gov/cafr/cafr.asp>.

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8. Net Position

Capital Reserve Accounts

| Net Position | Funded 2016 | Requirement 2016 | Funded 2015 | Requirement 2015 |
|---------------------------|----------------|---------------------|----------------|---------------------|
| Capital Reserve Account A | \$1,991,970 | 8,686,845 | 1,619,097 | 11,615,345 |
| Capital Reserve Account B | 0 | 271,923 | 0 | 315,092 |
| Direct Loan Program | 1,949,383 | 1,949,384 | 1,910,807 | 1,910,807 |
| Working Capital Fund | 1,020,966 | 1,020,966 | 1,155,124 | 1,155,124 |
| Total | \$4,962,319 | \$11,929,118 | \$4,685,028 | \$14,996,368 |

The Montana Legislature approved the creation of Capital Reserve Accounts in section 90-7-317, MCA, as security for the payment of loans in connection with certain bonds or loans issued by the Authority. The Capital Reserve Account A is security that applies to all bonds issued under the Master Loan Program (12 series of bonds), one Stand Alone bond issue for the Montana Developmental Center, and surety bonds issued for Prerelease Revenue Bonds (8 series of bonds). These bonds and loans are enhanced by the BOI through the BOI's contract with the Authority to replenish the debt service reserve fund if necessary. The Authority designates certain funds equal to 10% of the par amount of the enhancements provided by the BOI, based upon the previous fiscal year end balance, to be deposited to Capital Reserve Account A. Therefore the Authority has designated a certain portion of the Total Net Position for loan repayments to the BOI, upon demand, under the Capital Reserve Agreements. The table below shows enhancements provided by the BOI, the Capital Reserve Account requirement and the amount of the Capital Reserve Account requirement that was funded.

| | BOI Enhancements | Capital Reserve Account Requirement | Capital Reserve Account Funded |
|------|---------------------|--|-----------------------------------|
| 2016 | 79,875,285 | 8,686,845 | 1,991,970 |
| 2015 | 86,868,453 | 11,615,345 | 1,619,097 |

Effective July 1, 1999, the Montana Legislature required the BOI to allow the Authority to make loans totaling up to \$15,000,000 of the Permanent Coal Tax Trust Fund for capital projects in section 17-6-308, MCA. Until the Authority makes a loan pursuant to Title 90, Chapter 7, MCA, the funds under its administration must be invested by the BOI. The BOI and the Authority calculate the interest rate on each loan. One new loan was originated under this program during fiscal year 2016 and no new loans were originated in fiscal year 2015. The Authority has issued a total of 21 loans under this authority, five of which are currently outstanding. The outstanding loan amount of approximately \$2,151,639 as of June 30, 2016 and \$2,719,231 as of June 30, 2015 is reported as investments in the financial statements of the BOI. The Authority designates certain funds up to 10% of the par amount of outstanding loans made from this program as a loan repayment, in the event of a borrower default, in the Capital Reserve Account B. These funds are represented in the Total Net Position as Capital Reserve Account B. As of June 30, 2016, the total Capital Reserve Account B requirement was \$271,923 and was funded at \$0. As of June 30, 2015, the total Capital Reserve Account B requirement was \$315,092 and was funded at \$0.

Direct Loan Program

The Legislature authorized the Authority to create and fund a revolving Direct Loan Program that provides short-term loans to its non-investment grade clients to finance small capital projects. The Authority has designated a certain portion of the Total Net Position for this revolving loan program. Deposits to the Direct Loan Program include applicable loan repayments, annual fees, and investment earnings. On June 30, 2016 the funding requirement for the program was \$1,949,384, had loans outstanding of \$1,593,439 leaving \$355,945 available for

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additional loans. As of June 30, 2015 the funding requirement for the program was \$1,910,807, had loans outstanding of \$833,934 leaving \$1,076,873 available for additional loans.

Working Capital Fund

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2016 and 2015 the fund requirement equaled \$1,020,966 and \$1,155,124, respectively and were fully funded. These funds are part of the Total Net Position balance.

9. Write-Off of Loan

In 2007 the Authority made two loans to Gateway Community Services to purchase condominium units. One loan was funded through the Permanent Coal Tax Trust Fund and the other was made from the Authority's Direct Loan Program. Gateway defaulted on both loans September 15, 2010. The Direct Loan was written off and the Authority repaid the outstanding principal balance to the Permanent Coal Tax Trust Fund from funds designated for such an event. During the default remediation process, the Authority purchased the one condominium in the building that was owned by a for-profit corporation. The final remediation consisted of Gateway signing a promissory note on May 31, 2016 to repay the Authority the approximate cost of that purchase. Repayment of the note is scheduled to begin in July of 2016. The financial statements reflect the recording of a receivable, depletion of the accumulated depreciation, write-off of the building and a gain on the sale of the condominium unit.

10. Subsequent Events

On August 3, 2016 a \$771,000 loan was made to Northeast Montana Health Services from the Trust Fund Loan Program to finance the costs associated with the purchase of replacement boilers and asbestos mitigation.

On August 17, 2016, \$20,507,240 of bonds were issued for North Valley Hospital to refinance bonds issued by the Authority in 2012 and 2014. The refinancing was necessary because of an affiliation with Kalispell Regional Healthcare System. The refinancing also reduced the interest rate and extended the term of the bonds.

On September 28, 2016, \$50,810,000 of bonds were issued for Providence St. Joseph Health to refund bonds issued in 2006 for Providence Health & Services. The 2016 issuance will bring the 2006 debt into the new obligated group formed by the merger of Providence Health & Services and St. Joseph Health System.

On October 5, 2016, \$17,915,000 of bonds were issued for St. Luke Community Healthcare to redeem bonds originally issued by the Authority in 2006. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 11, 2016, \$2,100,000 of bonds were issued for Marias Medical Center to refinance bonds originally issued by the Authority in 2005. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 21, 2016, \$3,070,000 of bonds were issued for Boyd Andrew Community Services to refinance bonds originally issued by the Authority in 2006. The Series 2016 bonds reduced the interest rate of the prior bonds.

On November 10, 2016, \$141,250,000 of bonds were issued for Benefis Health System to refinance bonds issued by the Authority in 2007 and 2011 as well as approximately \$23 million to renovate and expand its Emergency Department. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 14, 2016 a \$100,000 Direct Loan was made to McCone County Health Center to finance the purchase, move and installation of a modular building to house traveling professionals.

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On October 27, 2016, a \$245,000 loan was made to Broadwater Health Center to purchase lab equipment and a house to house locum physicians and offices.

On December 21, 2016, a \$356,000 loan was made to Pondera Medical Center from the Trust Fund Loan Program to finance the purchase of a leased CT Machine and to renovate its Radiology Department.

On December 31, 2016, Michelle Barstad, the Executive Director retired. Associate Director, Adam Gill has been named the new Executive Director.

On January 30, 2017, \$9,820,000 of bonds were issued for Northeast Montana Health Services to redeem bonds originally issued by the Authority in 2007. The Series 2017 bonds reduced the interest rate of the prior bonds.

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REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016 and 2015

Schedule of Proportionate Share of PERS Net Pension Liability

Employee Benefit Plans (Financial Statements Note 6)

| | 2015 | 2016 |
|---|------------|------------|
| Proportion of the net pension liability (asset) | \$ 129,848 | \$ 156,463 |
| Proportionate share of the net pension liability (asset) | 0.01042% | 0.011193% |
| Pensionable payroll | 116,523 | 129,056 |
| Proportionate share of the net pension liability (asset) as a percentage of its pensionable payroll | 111.436% | 121.234% |
| Plan fiduciary net position as a percentage of total pension liability | 79.9% | 78.4% |

Note: 10 year schedules will be displayed as it becomes available.

Schedule of Contributions

Employee Benefit Plans (Financial Statements Note 6)

| | 2015 | 2016 |
|--|-----------|-----------|
| Contractually required contributions | \$ 10,250 | \$ 11,404 |
| Contributions made | 10,250 | 11,404 |
| Contribution deficiency (excess) | \$ - | \$ - |
| Share pensionable payroll | 116,523 | 129,058 |
| Contributions as a percentage of pensionable payroll | 8.797% | 8.836% |

Schedule of Funding Progress for Montana Facility Finance Authority

Other Post-Employment Benefits (Financial Statements Note 7)

As of June 30, 2016, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2015 for the year ending December 31, 2014. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2016.

| Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of covered Payroll ((B-A)/C) |
|----------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 1/1/2011 | \$0 | \$62,527 | \$62,527 | 0 | \$195,383 | 32.0% |
| 1/1/2013 | 0 | 42,501 | 42,501 | 0 | 144,323 | 29.45% |
| 1/1/2015 | 0 | 41,103 | 41,103 | 0 | 164,796 | 24.94% |

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana Facility Finance Authority (authority), as of and for the two fiscal years ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the authority's basic financial statements, and have issued our report thereon dated January 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control that we consider to be a material

weakness. See the finding and recommendation starting on page 5 for a description of this material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Montana Facility Finance Authority's Response to Findings

The authority's response to the finding identified in our audit is described on page C-1 of this report. The authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 31, 2017

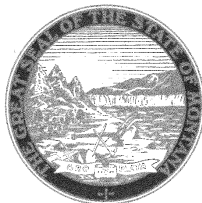
MONTANA FACILITY
FINANCE AUTHORITY

AUTHORITY RESPONSE

MONTANA FACILITY FINANCE AUTHORITY

Department of Commerce

2401 Colonial Drive, 3rd Floor (59601)
PO Box 200506
Helena, MT 59620-0506



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www.mtfacilityfinance.com

March 6, 2017

Mr. Angus Maciver
Legislative Auditor

RECEIVED
MAR 08 2017
LEGISLATIVE AUDITOR

Re: Audit of Montana Facility Finance Authority

Dear Mr. Maciver:

We have received and reviewed the biennial audit of the Montana Facility Finance Authority for the period ended June 30, 2016. We appreciate the professionalism and courtesy with which the audit was conducted.

The Authority recognizes that an internal control deficiency was noted in prior audits. The Authority has worked diligently at the cost of both time and money to address the deficiency including:

- Revising internal checklists related to the review of documents to ensure accurate reporting and compliance with GAAP and GASB reporting requirements;
- Sought additional information to improve understanding of GAAP and GASB reporting requirements; and
- Contracting with a public accounting firm to review Authority financials, notes and MD&A to ensure compliance with GAAP and GASB reporting requirements.

The audit for the period ending June 30, 2016 included a recommendation based on internal control deficiencies.

Recommendation #1:

Recommend the Montana Facility Finance Authority:

- A. Provide existing staff with training related to GAAP-basis financial presentations, and
- B. Pursue the option of including state employees who are knowledgeable in GAAP-basis financial presentations in the financial reporting process.

The Authority concurs with the recommendation contained in the biennial audit and pursuant it, our response is below:

- The Montana Facility Finance Authority will investigate and pursue training options related to GAAP-basis financial presentations for its staff;
- The Authority has contacted and received approval to include state employees who are knowledgeable in GAAP-basis financials presentations into the financial reporting process; and
- The Authority will engage the services of another public accounting firm in coordination with the Montana Board of Housing to review financials, notes and MD&A.

Thank you for your staff's suggestions on how we can improve the operations of the Authority.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adam Gill', with a long horizontal flourish extending to the right.

Adam Gill
Executive Director